

Testimony

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**Senate Foreign Relations Subcommittee on International Economic Policy, Export
and Trade Promotion**

April 12, 2000

Thank you Chairman Hagel for the opportunity to appear before this Subcommittee. My name is Ralph Alexander, I am the Group Vice President for Exploration and Production, BP Amoco corporation. Although BP Amoco is the largest shareholder and operator of the Shah Deniz Gas Condensate Project and the Azerbaijan International Operating Company, or AIOC-- a consortium of companies planning the development of the largest oil field and largest oil project in the Caspian Sea, I am appearing today on behalf of BP Amoco only. I appreciate the opportunity to present an overview of BP Amoco's activities in the Caspian.

Summary

Ambassador Wolf has already stated the strategic and political significance of the Caspian region. Therefore, I will focus my remarks on the commercial issues affecting the development of oil and gas reserves there.

BP Amoco plays a leading role in the development of the Caspian region's oil and gas sectors. We believe that our efforts can be a force for good by developing a world class energy resource bringing prosperity and economic growth to Azerbaijan and the neighboring transit countries through regional interdependence.

In addition to our Caspian Sea oil reserves, BP Amoco recently discovered huge gas reserves in the Shah Deniz field which will be available to supply gas to Turkey and Georgia by 2002/3. Development of Azerbaijan's presently discovered oil and gas reserves will require more than \$12 billion in field investment and more than \$4 billion to create the pipeline access to world markets.

Such large investments in this part of the world require innovative approaches to developing these resources. The challenges to be faced and in which BP Amoco is playing its full part are:

1. Work to try to make the Baku-Tbilisi-Ceyhan oil pipeline a competitive transportation option so that a world class energy resource can be developed for the benefit of the Azerbaijan and the transit countries;
2. Seek solutions that overcome the enormous complexity involved which are sustainable for all the stakeholders, and to resolve these issues quickly. Companies must make decisions today which will impact the development of these resources for the next 50 years;
3. Provide solutions for exporting early Caspian gas to Turkey thereby providing much needed energy supplies to Turkey and Georgia, and paving the way to explore for synergies between oil and gas exports.
4. Encourage the US government and the international community to provide the right environment to allow investors clear economic and competitive choices for both oil and gas development and export.

The Baku-Tbilisi-Ceyhan Pipeline

BP Amoco supports the concept of an energy transportation corridor from the Caspian to the Mediterranean via Turkey although this aspiration is not without its challenges. We favor a Baku-Tbilisi-Ceyhan pipeline that provides competitive transportation to world markets. At the same time, we endorse multiple export routes for oil and gas from any region to ensure competition, security of access to markets and regional interdependence.

For the Baku-Tbilisi-Ceyhan pipeline to make economic sense as currently envisioned, companies developing oil reserves in the region will need to commit to shipping approximately 6 billion barrels of oil through it. To date, the AIOC and the State Oil Company of Azerbaijan have approximately 4 billion barrels waiting for an export solution. Even if all the individual AIOC partners commit their oil to the Baku-Tbilisi-Ceyhan pipeline this is one-third short of the volumes required for the Baku-Tbilisi-Ceyhan pipeline to work. To address this shortfall, BP Amoco is:

- Encouraging producers outside of AIOC to commit specific oil volumes to the pipeline;
- Working with the State Oil Company of Azerbaijan and the U.S. Government through Ambassador Wolf, to find the additional volumes essential for progress; and
- Working with the multilateral lending institutions to find innovative ways to help finance the project.

In short, BP Amoco is making every effort to find the volumes of oil necessary and exploring new ideas to make this pipeline viable. However, no one company can make this project a reality on its own.

BP Amoco Efforts to Resolve Complex Issues

The Baku-Tbilisi-Ceyhan pipeline will pass through Azerbaijan, Georgia and Turkey. In addition to BP Amoco's efforts to search for the necessary volumes for this pipeline, BP Amoco has assisted in the development and negotiation of innovative model agreements between these three countries on many government levels to provide investors with the proper legal and commercial framework and protections to undertake massive infrastructure investment.

Timing is Critical

We are now at a critical juncture. The governments of Turkey, Georgia, and Azerbaijan have yet to finalize the agreements providing the legal and commercial terms for the pipeline. Despite the signing in November of arrangements between the three countries (which were witnessed by President Clinton) the details are still not complete. So far the delays in achieving an export solution have resulted in an approximate six month delay to the next phase of AIOC's project and production start up. Investment in offshore field development and pipelines will not go forward until these agreements are finalized.

Role of the U.S. and International Community

In order to make the sizable investments necessary to develop and transport Caspian oil resources to world markets, commercial loans will be necessary. However, since volumes of oil necessary to make

the pipeline viable have yet to be committed, commercial lenders would have to be convinced through other means that the Baku-Tbilisi-Ceyhan pipeline is viable. Therefore, assistance from the United States Government and the international community is essential to realizing the pipeline. The U.S. Government can take the following five steps to enhance the economic viability of the project:

1. Work with international financial institutions to find innovative ways to finance the project.
2. Make specific funds from the Export-Import Bank, the Trade and Development Agency, and the Overseas Private Investment Corporation available to the project.
3. Urge direct World Bank involvement to provide a stabilizing presence in the project.
4. Provide funds to support energy infrastructure development in the region.
5. Continue to support regional governments efforts' to coordinate and aggregate oil volumes

If the Baku-Tbilisi-Ceyhan pipeline comes to fruition, it will be a joint success by the governments of Azerbaijan, Georgia, Turkey, the United States, and the investors, bringing not only commercial and economic benefits but also regional interdependence.

Export Solutions for Gas

What I have said today about the challenges of developing and transporting oil to market is also true for gas.

The BP Amoco led Shah Deniz partnership is currently working on an early field development scheme and securing a pipeline to deliver gas to the Georgian and Turkish energy markets by the winter of 2002 - 2003. This effort was supported by the gas memorandum signed between the governments of Azerbaijan, Turkey and Georgia last November. BP Amoco believes that by building a pipeline from its gas field to markets in Georgia and Turkey, it will meet the 2002/3 deadline and will provide Turkey with competitive gas sooner than other pipeline options.

Shah Deniz is a project which does not need to search for volumes and finance as a condition for realization.. Early gas deliveries benefit not only the Turkish consumer but also the stability of the region, by offering a solution to the current energy crisis in Georgia. They will also underpin the economic growth of Azerbaijan and Georgia by bringing them early investment and revenues as well as gas. This project provides an outstanding opportunity for government and commercial interests to deliver on the benefits of the East-West energy transportation corridor. We should do our best to realize these benefits and not put hurdles in its way.

Concluding Remarks

In conclusion, BP Amoco will continue doing everything in our power to help make the Baku-Tbilisi-Ceyhan pipeline come to fruition. We will also strive to supply the region with a new natural gas resource. We are committed to bringing Caspian oil and gas resources to international markets. I extend my sincere thanks for the opportunity to appear before you today and to clarify BP Amoco's position to the Members of this Subcommittee. I hope that my appearance here today helps this important

committee understand the challenges we face in developing and transporting Caspian resources to world markets. I look forward to any questions you might have. Thank you.

Ralph Alexander
April 2000